CHANGING OF THE GUARD: FARMERS TELEPHONE COOPERATIVE

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ABSTRACT

This case illustrates the impact of resistance to change during a transition of an owner/manager in a company with a publicly elected Board of Directors. The objective of the case is to highlight the impact of change on the culture and how this resistance can be managed. The previous General Manager was a long time company man who tended to manage reactively. His successor believes in a more modern, proactive approach to management. The retirement of the previous GM and even the appointment by the board of the current GM were expected, but not so soon, causing much resistance.

INTRODUCTION

The primary issue for this case is the transition from one General Manager to another and the idea that this type of transition causes significant culture change for the company. The secondary issues are communication styles, leadership styles, and an analysis of what can be done to ease resistance to change. Other issues considered are organizational hierarchy and implementation of strategic planning goals. Of particular interest are the key decisions of the current manager and his staff. Students could think of different ways he could have handled the situations, analyze the short-term and long-term effects of the decisions, and be able to discuss suggestions for future decisions and the alternatives for presenting those decisions to the employees of the company.

BACKGROUND FARMERS TELEPHONE: THE COOPERATIVE

Farmers Telephone Cooperative was incorporated in 1952. The company was set up as cooperative because none of the investor-owned telephone companies were interested in serving the rural area of DeKalb and Jackson counties. It is actually owned by the customers it serves. It is important to understand the cooperative philosophy of running a business. Profit is not the primary motive in business decisions. The cooperative exists to provide the best products and services, at the best possible value to the customers. This does not always guarantee the best price, although price is an important consideration. The excess of revenues, after meeting expenses, is returned to customers in the form of capital credits. These net profits are not returned the year after earned, but through a retirement rotation that credits a portion of the current and the balance of a past year amounts on the basis of usage.

Another interesting aspect of the cooperative form of business is that there is a Board of Directors elected by the members of the cooperative, which, in effect, are the customers of the company. One person from each exchange is elected on a rotating basis. This board has the final say in the decisions of the company, although they do not seek to run the day-to-day activities. That is where the General Manager becomes important. The Board of Directors appoints the General Manger. He or she is responsible for determining the direction of the company and is the source of the information and recommendations of the actions the board ultimately takes. The board usually, though not always, accepts and supports the General Manager's decisions and recommendations.

THE TELEPHONE INDUSTRY

In the early 1950s, the telephone industry was relatively simple. There was the Bell system and there were small independent companies like Farmers. There were only basic services available and rates stayed steady through 1982. In 1980, inflation and operating expenses overtook revenue for small companies throughout the industry. The same was true at Farmers. The Alabama Public Service Commission (APSC) was slow to respond to the need of small rural telephone companies to increase rates. The small companies were forced to reduce costs and employees were laid off. This was the only instance of employee layoffs at Farmers Telephone. Finally a rate increase was granted in 1982 and remained in place until 1995.

In 1983, the world of telecommunications changed forever with the breakup of the Bell system. The deregulation of the industry had begun. In 1995, the APSC enacted legislation to allow independent telephone companies in the state to adjust rates to a benchmark rate that could be adjusted for inflation. The year 1996 marked the passing of the Telecommunications Act of 1996 by Congress. This act effectively opened the industry of telecommunications, at all levels, to competition. Rural companies were offered a temporary form of protection. The APSC granted independent telcos in the state of Alabama protection from competition until July 2001. Farmers Telephone is not currently facing competition, although competition is eminent.

COMPANY OVERVIEW

The company slogan for FTC is: "Farmers Telephone, Where Traditional Values and Modern Technology Meet." For some companies the slogan may be nothing more than words, but for Farmers it sums up the ideas of the company since it's inception. In 1979, FTC was the first telephone company in the state of Alabama to offer digital switching. Farmers achieved its goal of system-wide one party telephone service in 1985. Today the company offers internet access and DSL and has subsidiaries that offer long distance and wireless service. While Farmers is constantly looking to be one of the first to offer new technology, the highest priority is on customer service. They realize that by maintaining the highest quality equipment, keeping employees well trained, and staying on the top of the technology wave, FTC will never be the low cost provider. By combining the best products and services with the best customer service at a competitive price, Farmers hopes to overcome this weakness.

Another challenge facing Farmers Telephone is flat access line growth. For the first time in the history of the company line growth has failed to increase in consecutive years. Reasons for this trend seem to include the fact that DSL eliminates the need for a second line for internet and the replacement of landline phones with wireless phones. A flat growth rate means that, for the first time ever, marketing efforts must be made in order to increase revenue. Not only is Farmers facing competition from other telephone companies, they also are facing competition from other industries.

THE EMPLOYEES

Farmers Telephone currently employs 117 people. The employees are hired from the service area, rotating among exchanges. There is no turnover to speak of. Nearly all of the people hired at Farmers retire there. The employees at FTC are paid well and enjoy benefits that are matched by only one other company in the area. Farmers provides the employees with the tools and training necessary to do their work efficiently. FTC encourages employees to take advantage of opportunities to further their education and training to improve their skill level. Farmers Telephone follows the philosophy that although they cannot absolutely guarantee employment, they can help guarantee that the employee will be employable (Bartlett, 1997).

An employee survey included responses from 74 out of 117 employees for a response rate of 63%. Sixty-one percent (71) of the employees are male, thirty-nine percent (46) female. Mostly men staff the outside-jobs. Fifty-nine percent (69) of the employees work outside or in an outside-related position. The employee’s ages are evenly distributed - twenty-seven percent (32) are under 30, twenty percent (23) are between 31 and 40, twenty-eight percent (33) are 41 to 50, and the remaining twenty-five percent (29) are 51 or older. Although it might be expected that the years of service would be divided in the same manner as the age, this is not the case. Approximately half of the employees have worked between 11 and 30 years of service, while forty-one percent (48) have less than 10 years service. The remaining seven percent (8) have been with the company for more than 30 years. Eighty percent (94) are general level employees. Thirty-five percent (41) of the employees have some type of degree or are pursuing one.

THE PREVIOUS GENERAL MANAGER

The previous General Manager was a man named Mr. Lacey. He was a thirty-five year employee of Farmers Telephone. Mr. Lacey began his career at Farmers as an outside lineman and worked his way up through several other jobs. Promotion was based on seniority only and this was how he advanced. He was the classic company man. As he advanced, he gained an understanding of the overall procedures of the company that was unmatched. Mr. Lacey was the General Manager through a time of little change in the industry. Other than a few years in the early 1980s, things ran smoothly and predictably for Farmers Telephone. Mr. Lacey was well respected throughout the company and the industry. Often the perceived successfulness and appropriateness of current organizational procedures lead to a management style of status quo. Research shows that industry tenure and current performance both contribute to strategic status quo. Executives and managers who believe their companies are doing well see no reason to change the management style (Geletkanycz, Black; 2001). Some people would say the general feeling around the company was “if it ain’t broke, don’t fix it”.

It was also said that his communication style shared many of the same attributes with the Old Communications Approach (Weidman, 2002). Although a very personable person outside of work, many employees found Mr. Lacey to be hard to approach with work-related issues. Communication tended to be one-way and came down through the hierarchal structure. Employees often felt that they were left uniformed and unappreciated, though not much was said because of the success of the company. The culture of the company soon assumed many of the same beliefs that were attributed to the General Manager.

THE CURRENT GENERAL MANAGER

The road to the position was very much different for Fred Johnson. He received a Bachelor's Degree in accounting and passed the CPA. Mr. Johnson worked in public accounting for a few years before being hired as the Manager of Finance at Sand Mountain Electric Cooperative. He served in that position for seven years before being hired in essentially the same position at Farmers Telephone. Being knowledgeable in cooperative finance, he worked closely with Mr. Lacey. Mr. Johnson served as Manager of Accounting and Finance for about ten years before being appointed General Manger.

During his tenure as Manager of Accounting and Finance, he went back to school and completed an MBA program. While managing his accounting department, he exhibited many of the skills necessary to effectively run a company. Mr. Johnson delegated responsibilities and duties, and then he allowed the employees the opportunity to decide the most efficient way of completing those duties. Employees set their own schedules and were responsible for completing work on time. When people make their own decisions about how to do their work and allocate their time, they usually enjoy their jobs more and put forth better effort (Malone, 1997). That was the result in this situation.

Another attribute shown was the ability to build trust. Often his department knew of things that were happening before employees in other departments. This sharing of information, above and beyond what was merely need-to-know, built a relationship of trust. It made his employees feel as if he valued their input and opinions, and that he felt confident in sharing his ideas. His department was a team, and the most important aspect of a team is trust. Trust among a team allows the employees to learn from one another and feel confident that each employee will do what is required so the team will perform as expected (Costigan, Ilter, Berman; 1998).

It was also during this time that the ability to manage emotional intelligence was fine-tuned. Research states that emotional intelligence consists of four basic capabilities: self-awareness, self-management, social awareness, and social skill (Goleman, 2000). Mr. Johnson has a great deal of self-awareness. He is very self-confident and understands his strengths and weaknesses. This is a skill that will obviously be useful in his role as General Manager. His self-management skills are also well developed. Rarely, if ever, will he be seen losing control of his emotions. It is, however, his social abilities that separate Mr. Johnson from lesser managers. He shows great empathy when dealing with employees. He knows everyone, and seems genuinely interested in their lives outside of work. Mr. Johnson is a good communicator. His messages are clear and convincing, and he is an excellent listener. Mr. Johnson believes that communication is essential in keeping employees and management working toward the same goals, and that respect and trust are important factors in forming a partnership between management and the employees for the advancement of company goals and strategy.

THE SITUATION AT FARMERS TELEPHONE

On Monday, March 25, 2002, the employees of Farmers Telephone were called to a mandatory meeting in the auditorium. Because of the cost of bringing over one hundred employees together, meetings of this sort rarely happen. There was a buzz in the air concerning what the meeting could be about. There was a general understanding among the employees that Mr. Lacey would be retiring in the not-so-distant future. After all, he had been with the company for over thirty-five years and was experiencing some medical problems. His medical condition was not pressing, and there had been no talk about a successor, so what was about to happen was still a big surprise.

Mr. Lacey took the podium and began discussing the current state of Farmers Telephone and the state of the telephone industry in general. He stated that access line growth was stagnant. Net profit was not expected to be equal to last year. Competition was coming, and things would soon be tight around the office. Farmers Telephone was going to have to re-evaluate the way things were going to be done in the future. In effect, big changes were coming, and he did not have the energy or desire to lead Farmers Telephone into this unknown future. He did not want to short-change the employees that depended on Farmers for their livelihoods. He was resigning, and the Board of Directors had named Fred Johnson the General Manager, effective immediately. The board also named Chris Bryant as Assistant GM. He stated that he would support the team of Mr. Johnson and Mr. Bryant in any way that he could. Mr. Lacey also added that he had complete confidence that these were the gentlemen to lead Farmers Telephone into an uncertain future. Mr. Johnson then spoke to the employees, thanking the board for the opportunity to lead Farmers. He thanked the board for allowing Mr. Bryant to assist him. Mr. Johnson then began to speak about the current situation at the company and the future of Farmers Telephone. He spoke of the strong financial situation at Farmers. He spoke of an excellent group of dedicated employees. He spoke of how the emphasis of the company on customer service throughout the years had provided Farmers with an excellent name in the area. When he talked about the possibility of competition, he mentioned it as a great opportunity for Farmers to widen their area of service. He said the possibility of the company moving into other areas and competing for business was exciting. When he was finished speaking, Mr. Bryant spoke for a few minutes and mirrored Mr. Johnson's excitement and said that they welcomed and expected employee input.

Naturally, there was a buzz around the office that afternoon. Employees were surprised at the announcement of Mr. Lacey's resignation. It had been expected that an Assistant GM would be named to assist Mr. Lacey and to serve in that capacity for a while before being promoted. The successor was not unexpected. It was generally agreed that one of the two, Mr. Johnson or Mr. Bryant, would eventually be promoted to General Manager. Fred Johnson was the obvious choice, having headed the early stages of the strategic planning process that had begun recently. Chris Bryant had a Bachelor's Degree in Management and had taken the same road to his current position of Industry Relations Manager that Mr. Lacey had years before him. Mr. Bryant began as an outside lineman and worked his way up. Although there was some sentiment among the outside guys that the pair should have been reversed in their new positions, it was the overwhelming agreement of the employees that the team of Johnson and Bryant was an excellent choice. Mr. Johnson was analytical and visionary. Mr. Bryant was a people person that everyone liked and communicated with very easily.

There was a general feeling of excitement. It was noted that the two speeches were like day and night. It was as if Mr. Lacey and Mr. Johnson were talking about two different companies. Employees were encouraged by the positive view that was cast by the new management. The good feelings continued as Farmers opened customer service offices on the north end of the service area and opened an expanded home office. Efforts were made to ease the transition from one General Manager to another. Mr. Bryant's new office was located on the corner of two of the busiest hallways making him very accessible. A procedure was put in place where employees met with department managers and discussed anything that concerned them. The department manager is then required to pass this information, whether or not the manager agrees with it, upward to the General Manager to be considered.

The promotions of Mr. Johnson and Mr. Bryant, along with a couple recent retirements, set in place a series of job openings. As part of an on-going strategic planning process, a new promotion and hiring policy was introduced. The proposed policy stated that no longer would seniority be the primary basis for filling open positions. It is the goal of the policy to strike an appropriate balance between the qualifications of employees and the reward for length of service. The actual selection of employees will be based primarily on qualifications. The policy stated that such an objective is ultimately in the best interest of the company. The proposed policy would include a schedule of expected job openings and the requirements of the job. The company will also provide training and opportunities to further education at the company's cost. It was also stated that is the preference of the company to promote from within the company when possible. At approximately the same time, although not in conjunction with the new promotion policy, an employee committee was set up to pass concerns from employees directly to the General Manager.

It was a sound policy and not much was made of it at the time. It became a huge issue the first time an employee with seniority was passed over, however. Two employees were interested in a warehouse job that came open as a result of a recent retirement. Both employees had experience in the warehouse, but the employee with less seniority was chosen because of other qualifications considered. The warehouse job was actually a supervisory position, which is not subject to the policy, but a small group of employees jumped on the situation anyway. Three other jobs were posted with each requiring a degree. A job requiring a degree has long been a sore spot at the company. Some senior employees say that a college degree is irrelevant if another employee can be trained to do the job. Evidence of this can be seen in the survey question that asked respondents to rank the most important factors that should be considered when filling a job. Having a college degree finished a distant third when considered against seniority and basic competency skills. Eleven percent (13) of the employees ranked seniority as more important than having the basic skills necessary to do the job. The disagreement between the employee committee and management eventually came to the point where the committee disbanded itself and proclaimed management uncaring and uninterested in hearing what the committee had to say. According to the survey, this incident has led to a significant number of employees that are unhappy with the progressive policies of management. Fifty-seven percent (67) did not agree with the recent hiring and promotion decisions. Forty-three percent (50) of the employees in the survey indicated that they do not agree that management has the interest of the employees in mind when decisions are made. Thirty-nine percent (46) responded with an answer other than agree or strongly agree when asked if they had confidence in management's decisions during the on-going strategic planning process. These numbers alone are troubling, but when combined with the fact that thirty-eight percent (44) of the respondents indicated that they did not agree that they were comfortable approaching management with a problem, the situation becomes an issue. When considering the survey information, it should be noted that there is no survey from the previous General Manager's tenure for comparison

ANALYSIS

Research shows that the best time to initiate change is when things are going good (Pietersen, 2002), so at least the management at Farmers has that in their favor. While efforts, including making the Assistant GM accessible and setting up an upward line of communication, were made to ease the change in company culture, they were countered by one decision that some employees did not approve of. This shows that any change, no matter how beneficial to the company and employees, will be met with some resistance (Spiker, Lesser; 1995). This could be because organizations are a reflection of the manager and succession is a traumatic event for a company. Successors often work on organization and culture change before a strategic change (Kessner, Sebora; 1994). This was not an option in this situation, because the strategic planning was already underway. The strategic planning retreats might have inadvertently separated management from the employees, as the management team was away for a week on two different occasions. The strategic planning process has, to date, only involved management. It is important to give employees an idea about the history of the company, make the employees aware of what's currently happening involving the company, and that the employees must take responsibility for shaping the future (Heifetz, Laurie; 1997). Mr. Johnson, as a step in the strategic planning process, has done this. There is an orientation process in place where Mr. Johnson delivers an overview of the company in the form of a half-day presentation. As part of the process, all employees do a rotation of the different positions at Farmers in order to get an idea of the role each employee plays.

In any situation there will be someone that is not happy. A small number of people just are not happy unless there is some form of controversy. Also, remember conflict in some aspects and situations is healthy, especially when the conflict leads to communication and discussion. That does not seem to be the case here. The disapproval numbers from the survey were too high to dismiss. This is a situation that needs to be addressed.

RECOMMENDATIONS

The first thing that Mr. Johnson should understand is that seventy percent of all change initiatives fail (Beer, Nohria; 2000), and he is facing a battle. This failure is usually related to resistance to a culture change. A company's culture is an enduring system of beliefs and assumptions that have developed over time. Employees use this system to explain and evaluate things that happen around them every day (Bennett III, Fadil, Greenwood; 1994). The culture at Farmers is very strong because employment, for the most part, is a lifetime situation. Most employees have worked in the same job and under the same management for most of their lives. At Farmers, probably more than most companies, culture plays an important role when strategy change is necessary. Employees have understood that if they do their jobs, stay out of trouble, and wait their turn, they would eventually get a promotion. Now that is not the case. They see younger employees with less seniority taking the jobs they want because they are more qualified. Many have stated that if they knew this was going to be the case, they would have prepared differently by getting the training and education needed. Perhaps the management at Farmers could have implemented a dead period on the promotion policy. They could have said that beginning in 2003, job vacancies will be filled this way, so get the training necessary if you think you might be interested. This situation will possibly go away. A year from now, everyone will have had the same opportunity to acquire the skills necessary to fill the upcoming vacancies. Farmers should continue to post projected job vacancies and the skills that are required.

The situation with the reconsideration of the promotion policy will be the first of many changes to come from the ongoing strategic planning process. To date, only the management team is involved in the strategic planning process. Mr. Johnson should consider trying the employee committee approach again. An option could be a three-person team to represent the employees. This employee team could be included in the planning process in addition to being the voice of the employees. This would be a source of empowerment for the employees. Employees are far more likely to support a process they helped to create (Johns-Treat, 1994). Currently, there are whispers that management is considering a logo change, a company color change, and possibly a name change. If true, this would be a perfect opportunity to get the employees involved. Not only could management eliminate the possibility of groupthink in this situation and gather a wide range of valuable ideas and opinions, they use something as simple as a logo change to begin re-building the partnership with the employees that will be needed later to implement the large changes in strategy.

As was mentioned earlier, credibility and trust will be imperative as management attempts to implement other aspects of the strategic planning process. It will be important to align words and deeds. This simple task will go a long way toward establishing and strengthening credibility (Poole, 1998). Mr. Johnson should continue to show the character that he has shown in the past as a department manager, and the complete trust of the employees will follow. Research shows that the longer a manager serves in a position, the higher the level of trust (Costigan, Ilter, Berman; 1998). Apparently, trust can be built by longevity.

QUESTIONS

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